

USAID/OTI Sri Lanka Program

**Quarterly Report
January 1, 2004 to March 31, 2004**

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PROJECT OVERVIEW

On February 25, 2003, Development Alternatives, Inc. (DAI) signed Contract No. AOT-I-03-98-00199-00, Task Order No. 3 with USAID's Office of Transition Initiatives (OTI) to begin implementation of OTI's Sri Lanka program. The contract was executed under the SWIFT IQC. The above-referenced contract runs until February 25, 2003.

After 20 years of civil war, the Government of Sri Lanka (GOSL) and the Liberation Tigers of Tamil Eelam (LTTE) signed a ceasefire agreement in February of 2002. Formal peace talks began seven months later, facilitated by the Government of Norway. In the weeks that followed the commencement of the talks, the parties demonstrated a willingness to compromise on controversial issues in an effort to make tangible progress towards a negotiated settlement. An assessment mission to Sri Lanka by OTI in late 2002 concluded that the current peace initiative had the best chance of any to date in bringing a sustainable peace to the country. OTI concurred, and the Sri Lanka program was opened in February of 2003.

OTI's overall objective in Sri Lanka is to generate greater support for a negotiated settlement of the conflict. The program plans to achieve this objective through the funding of activities under three sub-objectives. The first sub-objective is to demonstrate tangible benefits of peace. Illustrative activities under this sub-objective might include rehabilitation of community infrastructure, with active local stakeholder participation, and livelihood assistance. The second sub-objective is to increase the amount and exchange of information and diverse points of view among various levels of society and between and among various communities on peace-related issues. Activities that might be funded under this sub-objective include public service announcements, surveys and peace dialogues. Sub-objective number three is to reduce or prevent incidents of violence in conflict-prone communities. The types of activities that could be funded within this sub-objective could include community dialogues and peace advocacy campaigns.

OTI's island-wide geographic focus called for the establishment of three offices under the management of DAI. These are located in Colombo, Ampara and Trincomalee. These locations were selected in order to target populations and issues that were the most congruent with the program's sub-objectives.

The following report will detail the major challenges faced during the past quarter. These will be categorized as Programming, Implementation and Operations and will indicate how DAI addressed these challenges and maintained the program's commitment to rapid response.

PROGRAMMING

Country Situation during the Quarter

Events during the first quarter of 2004 plunged Sri Lanka's increasingly fragile peace process into greater uncertainty. Efforts to resolve the cohabitation crisis that arose between the president and the prime minister during the fourth quarter of 2003 were dealt a further blow on 20 January when the Sri Lankan Freedom Party (SLFP), the party of President Chandrika Kumaratunga, and the neo-Marxist nationalist JVP signed a memorandum of understanding to form a new alliance known as the United Peoples' Freedom Alliance (UPFA). This alliance came even as the SLFP and the United National Party (UNP), the party of Prime Minister Ranil Wickremesinghe, were holding talks to resolve the constitutional crisis created by the president's decision in November to reclaim control over three key ministries. Within three weeks of the establishment of the alliance, the president had dissolved parliament and called for fresh parliamentary elections to be held on 2 April, to be followed by provincial council elections beginning on 24 April. She further dismissed 39 ministers and deputy ministers, thereby bringing the workings of government to a near-complete halt.

Campaigning officially began on 24 February, the last day for each party contesting the elections to submit their nominations. A record 6,000+ candidates registered to stand for the elections, the third national poll in four years. There were early fears that the campaign, as well as the elections themselves, would descend into violence and chaos, as had been the experience in previous elections. However, as campaigning ended at the close of the quarter, the number of violent incidents reported appeared to be considerably less than in the 2001 election campaign.

In the run-up to the elections, there were important structural changes made by the Commissioner of Elections in how polling was to be conducted. First, election monitors – both international and local – were to be allowed inside polling stations for the first time in Sri Lanka's history. This would give the Commissioner independent witnesses to confirm the conduct of the voting at any given location – and thereby give him the evidence he would need to annul the results if improprieties had taken place. In addition, agreement was reached on the modalities of enabling voters living in LTTE-controlled areas to exercise their franchise. Voters from these regions were to be bussed out to polling stations on the border between government-controlled and rebel territories and later returned to their homes. This modification marked the first time in over 20 years that people from these regions would be able to cast their ballots.

Meanwhile, the political situation in the country was further complicated by the early March split within the LTTE. The LTTE's eastern military commander, Colonel Karuna, proclaimed that the cadres and regions under his control would secede from the LTTE's northern-dominated leadership. Media interviews with the renegade commander revealed possible reasons for the rift, including a perceived double standard in treatment for northern- vs. eastern-based LTTE cadres, displeasure with the LTTE intelligence wing's alleged heavy-handedness with Tamil candidates in the upcoming elections and concerns

about what appeared to be preparations for a return to war. Karuna also called upon the Sri Lankan government to enter into a separate ceasefire agreement with his branch of the LTTE, claiming that he was no longer bound by the original agreement between the GoSL and the Prabakaran-led LTTE. The government swiftly declined.

The split gave rise to various rumors in the days that followed. One held that LTTE intelligence wing operatives had attempted to infiltrate the east in order to assassinate Karuna. Another claimed that war had broken out in Batticaloa. Two pieces of information that were confirmed as true were 1.) that the Sri Lanka Monitoring Mission (SLMM) had withdrawn from areas of the east under Karuna's control, and 2.) that hundreds of Jaffna Tamils residing in Batticaloa had been asked to vacate the district, fueling speculation of a forthcoming attack. As the quarter closed, hostilities had not yet begun but were considered imminent.

Program Stocktaking and Mini-Strategy Session

As the one-year anniversary of the program approached, the program's senior management decided to take stock of challenges and achievements to date. In January, the OTI Country Representative and the DAI COP engaged the services of OTI Country Representative for Afghanistan Christa Skerry – who was in Colombo attending a USAID conference on conflict and development – to conduct a stocktaking and management review of the program. In the two days allocated for the exercise, Christa worked with the OTI CR and the DAI COP to develop a questionnaire and carry out interviews with all Colombo-based staff, one field-based staff member and a range of staff from the USAID/Colombo Mission. The results of the stocktaking yielded no surprises, reconfirmed for senior management what was clearly working and identified the functions that might benefit from further strengthening.

One shortcoming of the stocktaking was the limited time frame. This meant that only one third of the program's staff members – and only one voice from our significant field presence – was heard. The OTI CR and the DAI COP concurred that a similar exercise should be carried out in both the Trincomalee and Ampara field offices in order to obtain a more comprehensive picture of our operation. In mid-March, the DAI COP traveled to Trinco and conducted a similar stocktaking exercise with staff there. Once again, the results held no surprises and provided senior management with some solid suggestions for how to further fortify our program. A similar exercise for the Ampara office will be conducted early in the third quarter.

In addition to the approach of the program's one-year anniversary, the rapidly changing political climate in Sri Lanka also gave rise to the need for a program strategy review. This mini-strategy session was held in Trincomalee on 17-19 February and was attended by the senior management team and program development staff from Colombo, Ampara and Trinco. Participants of the session discussed the possible ramifications on our program of a change in government and the effect on the peace process. Broad regional and sectoral strategies were presented and some minor revisions were discussed but, in the main, the overall strategy remains the same as the original crafted in June of last year.

Overall Programming

At the close of the quarter, the program had made a total of 126 grants for \$3,029,483 since inception. This represents a 45% increase in the number of grants over the previous quarter and 34% increase in grant funds committed.

The overall geographic distribution of total grants and committed funds has shifted slightly from the pattern reported during the previous quarter. National level grants – comprising media and elections-related activities – jumped to 19% of total grants compared to 14% at the end of the fourth quarter of 2003. Total funds committed to national level grants were down to 8% of the overall total as opposed to 13% at the end of last year. This reflected smaller national level grants as well as more robust spending in other regions of the country. However, the total number of national level grants increased due to the program's response to the announcement of fresh parliamentary elections.

Grants to partners in the south rose to 26% of total grants versus 20% of total grants approved by the end of the last quarter. Funding for southern grants remained a solid 38% of total funds committed to date. Jaffna grants fell slightly to 8% of both total grants and total funds committed as opposed to 11% at the end of the last quarter. Once again, this was due to more robust programming in other parts of the country. In Puttalam, grants remained at the year end levels of 6% of the total number approved and 7% of overall grant funding. One reason for the smaller representation of Jaffna and Puttalam grants in the overall percentages was that DAI program staff assigned to those regions were having to cover the south as well while OTI recruited and hired a Program Development Officer (PDO) for the south. That process was completed in January, after which a period of training by the above-referenced DAI PDOs was undertaken. Programming in both Jaffna and Puttalam is expected to increase now that the program has a PDO fully dedicated to the south.

Grant making in the east (Ampara and Batticaloa) rose dramatically over the past quarter. Approved grants comprised 40% of the program total and 21% of total funds committed, comparing favorably with a level of 30% and 20%, respectively, at the close of the last quarter. The northeast also marked an increase in the total number of grants approved to 22% from 16% at the end of 2003. Funding for northeast grants remained at the same percentage, 11% of the program's total. Details of grant making by office are addressed below.

Colombo Office Programming

The Colombo office closed the quarter with a total of 67 grants for a value of \$2,133,268. Grant making for the quarter was evenly distributed across January, February and March.

From a geographic perspective, grants approved during the past quarter were split between national level initiatives, the south and Puttalam. There was no grant making in

Jaffna during the past quarter for two reasons. First and as mentioned above, the PDO assigned to Jaffna continued to cover the south while OTI's new PDO was recruited and trained. Second, the decision was taken by the program to focus on completing the implementation of existing grants in Jaffna. Implementation of these grants had earlier been delayed due to constraints in tax-free transport of grantee goods to Jaffna through LTTE-controlled territory. These challenges were overcome during the previous quarter with the establishment of a system whereby goods and materials were allowed free passage by the Tigers. Grant making in Jaffna will resume early in the second quarter of 2004.

Although no new grants were made in Jaffna during the first quarter, the multiplier effect of ongoing grants was nonetheless felt. An earlier grant had been made to the Wholistic (sic) Health Centre (WHC) of Jaffna to rehabilitate three pre-schools in the war-ravaged Kopay division. These pre-schools had earlier been catering to the educational needs of the surrounding villages in the Kopay area but were badly damaged during the war. As a result of the destruction, classes were being conducted in an ad hoc manner due to lack of basic facilities. The rehabilitation effort came to the attention of the government, which pledged its support to rebuild two of the three pre-schools identified. As a result, DAI asked WHC to identify another two pre-schools for rehabilitation of the damage caused by the war in this area. Thus, the people of Kopay will now receive the benefit of five re-activated pre-schools instead of the original plan of three.

In the south, a new trend in grant making emerged during the first quarter. Whereas most earlier grants were solid benefits of peace activities, the grants approved during the past quarter were equally split between peace dividend projects and peaceful co-existence initiatives linked to the peace process. The latter set of grants appeared to be a response to the growing uncertainty regarding the political situation in the country and the possible negative effect this would have on support for a negotiated settlement.

One noteworthy southern grant that was awarded during the past quarter is bringing together civil society, religious leaders and NGO networks in the south on peace-related issues. In addition, the grant is funding a highly popular radio program on an island-wide radio station to highlight local, regional and national issues related to peace. These issues emerge from local people's forums organized by the grantee's "peace care guards", who also compile queries from the public to policy makers on peace-related matters. Another grant made during the first quarter that focuses on the larger issue of a negotiated settlement is conducting a workshop series on federalism in the south. Understanding of federal models by citizens from this area of the country is quite limited, leading to suspicion about the concept of devolution and its place in a negotiated settlement.

At the national level, most of the past quarter's programming focused on non-violence, particularly in the run-up to the 2 April parliamentary elections. Five national level grants awarded during the past quarter covered activities that complemented another USAID-funded program's election efforts, thus deepening the collaboration between different parts of the Mission.

Although only two grants were made in Puttalam, these activities plus our ongoing grants had widespread impact. One grant that was completed during the past quarter involved construction of a new polyclinic for an IDP/host community on the Kalpitiya Peninsula of Puttalam district. The idea for the polyclinic was put forth by a Muslim IDP and host community womens' society. The polyclinic will serve 728 Muslim, 93 Sinhalese and 80 Tamil families from 5 local villages and 802 Muslim IDP families from 11 relocated villages. The local mosque committee donated 20 perches of land for the facility. The Ministry of Health provided steel tables and benches and will also bear the maintenance costs of a regular health service. The mothers of the area collected a sum of Rs. 10,000 for the connection of the electricity. The youth of the area helped in clearing the site and planting trees and shrubs around the edifice. A volunteer from the OTI-funded "Deniyaya Housing Challenge" project, a Sinhalese youth, was chosen to supervise the construction in this Muslim-dominated area to enhance ethnic interaction on the project. Over 30 Sinhalese, Muslim and Tamil workers from the host and IDP communities worked together for a period of 5 months to complete the construction of the polyclinic. The US Deputy Chief of Mission for Sri Lanka officially opened the facility in March.

The two new grants that were approved for Puttalam during the first quarter focused on messages of peace and non-violence. The first grant was for a peaceful co-existence program aimed at students in 184 multi-ethnic schools in the district. The program was also aimed at zonal educational officers, school principals and skills development teachers in the Puttalam educational zone. The feedback from the participants of the program was so positive that the Director of Educational Development for the district agreed to incorporate the program into the Department of Education's official curriculum. A second grant was made to the same grantee to conduct a peace awareness campaign in Puttalam district, encouraging youth and civil society leaders to refrain from extremist political provocation and violence in the run-up to parliamentary and provincial council elections. The campaign actively involved the Senior Superintendent of Police (SSP) and the Government Agent of Puttalam district. As a result of his interest in the peace awareness campaign, the SSP invited the grantee to screen segments of the USAID-funded teledrama "Take This Road" at 14 police stations in the district as a way of stimulating discussions with police officers regarding peaceful coexistence.

Ampara Office Programming

The first quarter of 2004 saw 14 new grants approved with budgets totaling \$175,307 from the Ampara office, bringing the total number of grants to 37 and the total commitment of funds for Ampara to \$560,955. After the December slowdown for Christmas and New Year, seven new grants were cleared in January, five in February, and two in March. Geographically, five of the new grants were in support of activities in Batticaloa, two were in Moneragala and the remaining six were in Ampara district.

Programming along the coastal belt of Ampara district and in Batticaloa was curtailed sharply during the run-up to the elections as political violence became a constant threat. This was particularly the case in the predominantly Muslim areas. Another blow to the programming team's ability to identify grants came with the split in the LTTE. This

action effectively checked the ability to program anywhere north of Batticaloa town, owing to concerns about staff security during travel.

During the period of active campaigning before the elections, there was concern that the program's grant activities might possibly be used by political parties for political gain. Certain handovers of equipment and materials were purposely delayed until after the elections so as not to allow them to be used for political purposes.

New grants in other parts of Ampara district included some livelihoods support in a multi-ethnic community, as well as the provision of improved water and sanitation facilities to a Muslim school and a village of recently returned people. All of these activities focused on bringing a tangible peace benefit to communities adversely affected by the conflict.

A different kind of grant was made this quarter to the Department of Fisheries in Kalmunai. The grant was designed to track and evaluate the impact on local fishing communities of equipment provided to fishing societies in Ampara district through earlier grants. A gender balanced team of department staff were asked to conduct a baseline survey through a questionnaire and then follow it up with monthly questionnaires. A cross section of fishing society members, which includes male and female executive committee members, will take part. It is hoped that the information garnered from this exercise will show that the quality of life of selected local fishermen and their families has benefited from our program's assistance. It will also provide justification for similar interventions in the future.

During the past quarter, a number of very good initiatives came from Moneragala district groups. With heightened security concerns along the coastal area of Ampara district, the program team was able to focus some attention on this marginalized district and target specific communities where anti-peace agitation is high. A rural agricultural region that is in need of tangible peace dividends, Moneragala will continue to be a valuable programming area for the Ampara office.

One grant that was initiated in Siyambalanduwa in Moneragala district over the past quarter will provide farming equipment to ten farming societies that will be used on a rotating rental basis by their members. Many farmers must now rent this equipment, used for paddy cultivation, from middlemen. By having their own equipment, the farming societies can now offer it to their local farmers at reduced rates and also improve the financial standing of their groups.

With election-related violence and the separation of Karuna and his cadres from the main LTTE body, Batticaloa continued to be a challenging place to work in the first quarter of 2004. Even before these disruptions, the issues surrounding "material benefit" to the LTTE were always present. Other international organizations working in the district have found it difficult to work with local NGO partners because of the LTTE's desire to control all of their activities. Although no problems of this nature have been experienced to date by our staff, the program may encounter such problems when attempting to

partner with certain local NGOs. In an effort to circumvent this dilemma, the program has chosen to work more closely with Community-Based Organizations (CBOs) with the assistance of Divisional Secretaries since CBOs are less closely scrutinized and controlled by the LTTE. During the past quarter, program staff identified a number of communities within Batticaloa district that have Muslim and Tamil populations and CBOs; future programming will focus on these areas.

A notable Batticaloa grant approved during the past quarter was made to the Rural Development Society of Chenkalady. The grant is an excellent example of delivering a tangible peace dividend while also improving inter-ethnic interaction. Working with local traders, the grantee will re-roof the Chenkalady market, which is located on a major junction and still bears the wounds of the conflict. The market houses a mix of Tamil and Muslim merchants who have permanent and semi-permanent stalls within the building. Since the ceasefire, Sinhalese traders have also begun to sell their wares at the market. Under the terms of the grant, the program will provide materials and pay for skilled labor to repair the market roof while the local traders' association will contribute the unskilled workforce. This project is a great example of local government, the mixed business community and the program coming together to fulfill a community-identified need and provide visible proof that peace and normality has returned to Chenkalady.

In another interesting grant approved during the past quarter, the Ampara office partnered with local rural development societies to collaborate with the World Food Program's activities in Batticaloa. Discussions between local communities, WFP, the office of the District Secretary, the office of the Divisional Secretary for Valachennai, a number of rural development societies, and our program resulted in the selection of improvements to selected rural roads. WFP, through their Food-for-Work program, will "pay" the unskilled laborers while our program will provide the materials and skilled labor for the construction of a number of culverts. These improvements will address the problem of impassable roads due to flooding during the rainy season. In addition, this project will benefit Tamil and Muslim community members.

Trincomalee Office Programming

The first quarter of 2004 saw the Trincomalee office give 8 grants for a total of \$97, 595, most of them in March 2004. While grant making steadily increased towards the end of the reporting period, there were delays due to the security situation and staff turnover (addressed in Operations). Overall, the total number of grants given since the opening of the office was 22 at the end of the quarter for a total of \$335,260.

Grants approved during the past quarter ranged from support of a multi-ethnic fishing cooperative to support for peace-themed street drama performances targeting youth. Many of the grant openings and project activities received widespread media coverage, especially on Tamilnet which is widely read by the Tamil diaspora. One grant in particular, in a Sinhalese area of Trincomalee district, involved multi-ethnic cooperation to build latrines for over fifty Sinhalese families. In this area, of much historical significance to Buddhists in the country, an influential Buddhist monk has come out

against the peace process and is uninterested in reconciliation. The goal with this grant was twofold: to enfranchise this community into the peace process while promoting inter-ethnic assistance in the form of labor and vendors. At the end of the reporting period, one of the Muslim vendors of cement donated his time and labor to deliver bags of cement directly to each house since the residents could not carry all of the materials themselves. Furthermore, Tamil and Muslim laborers are voluntarily helping the Sinhalese villagers dig their latrine pits. While the project is not yet completed, indications of improved relations between ethnicities are good.

Another interesting grant approved during the past quarter was a follow-on to an earlier activity that created “Peace Murals” in the multi-ethnic divisions of Gomarankadawela and Morawewa. The murals were painted on the sides of public buildings in these two divisions – most of them schools – and depict the effects of war and peace. The new grant builds upon Peace Mural project by holding drama performances on peace and peaceful co-existence at 17 of the schools where the murals are displayed. The performances target youth, their parents, principals, teachers and nearby villagers. The drama troupe itself is from a nearby high school with a predominantly Sinhalese student body where the Tamil language is a required subject. The performers are Sinhalese, Tamil and Muslim students from the school, who perform in both languages. Audience members from nearby communities attending the performances have already approached the grantee to hold similar dramas in their areas.

IMPLEMENTATION

Implementation during the first quarter of the year continued to accelerate as many projects moved towards completion. Total grant funds disbursed by the program increased by 19% over the previous quarter while total grant funds disbursed since inception stood at 47.63% of the total contract amount. During the past quarter, the program closed a total of 19 grants, as compared with only 2 closed grants in the previous quarter, and completed activities on another 18 grants in preparation for closure. The difference between the initial budgeted amount of total grants closed and actual monies expended was very small – only 7% – indicating that implementation staff were quite accurate in their initial budget assessments. In addition, the amount of money disbursed as grant activities were completed stood at 9%. Taken together with the 7% budget-to-actual variance mentioned above, this means that an average of only 2% of payments remained outstanding for grant activities which came to an end this past quarter. This compares favorably to 17% for the same statistic at the end of the previous quarter.

The past three months were also a time for achievements and challenges in implementation of grant funded activities. A couple of these are highlighted below.

Validation Works! DAI Program Guidelines on Reconstruction and Rehabilitation Put to the Test

During the previous quarter, DAI developed a set of guidelines for implementation of reconstruction and rehabilitation projects. During this past quarter, the program's Colombo-based implementation team had a solid opportunity to field test the efficacy of those guidelines. In all instances, the team contracted the services of professional certified civil engineers to validate construction plans and bills of quantity (BOQs) of proposed projects. The engineers visited the sites, met with grantees and beneficiaries and consulted with the relevant local authorities. Often, the plans originally presented were said to have been certified by government technical officers. However, in at least one case, the validation engineer's report identified unnecessary provisional sums incorporated into the BOQ and revealed that basic components such as plumbing, electrical and sanitation facilities had been omitted entirely. The report indeed proved that validation works - and minimizes the occurrence of subsequent revisions and amendments to reconstruction and rehabilitation grants.

The validation reports, subsequent drawings and BOQs became the basis for follow-on grants to undertake the reconstruction/rehabilitation work. Building upon its well-established corps of reconstruction coordinators throughout the country (see fourth quarter 2003 report), DAI assigned one of these trusted individuals to each grant in order to keep implementation proceeding seamlessly and in a timely fashion, and often to also introduce a further multi-ethnic dimension to the activity. The coordinators worked with the grantees, the beneficiaries, the skilled labor and the vendors to ensure that the proper materials in the correct quantities were delivered as scheduled and to make certain that transfer of trade skills was taking place between the skilled and unskilled labor. In addition, DAI procured the services of Construction Management and Inspection Service

(CMIS) providers, who would visit the site at agreed intervals to ensure the quality and integrity of the reconstruction. Because of their independence from the reconstruction process, these CMIS experts also ensured that no corners were cut and no collusion between the parties took place.

Ampara Implementation Team Confronts Challenges of Security, Inclement Weather

Although Ampara office implementation increased dramatically this past quarter, there were many constraints to carrying out activities. The weather continued to cause delays on a large number of community infrastructure reconstruction/rehabilitation grants. In most cases, inclement conditions abated by late January. However, low lying water in some areas was still an impediment into March. Ampara implementation staff worked with grantees to prioritize those parts of the grant activity that could proceed despite the weather while putting off other activities that were weather-dependent. In this way, activity momentum was never lost.

On a number of occasions, implementation was curtailed because of security issues created by various strikes and demonstrations on the coast of Ampara district and in Batticaloa. All travel by staff was undertaken only after receiving a situational update of the target community. Staff contacted grantees, beneficiaries or vendors directly; where travel was inadvisable, coordination and procurement was conducted over the telephone. Once the situation permitted, the program was able to make up lost time by sending a "team" of staff to accomplish as many of the delayed tasks as possible and to initiate other tasks ahead of time to make up for possible future security delays.

Grantees in the east were sometimes not imbued with the same sense of timeliness as program development and implementation staff. This problem was overcome by meeting with grantees to set out revised activity schedules with achievable targets that would help to guide the partner as well as ensure, for our part, more timely delivery of the necessary materials. Implementation staff in Ampara, like their counterparts in Colombo, took a more proactive approach to upcoming activity schedules rather than await submission of the grantee's statement of needs.

Until midway through the first quarter, Ampara was still operating with only one Procurement Specialist. This shortfall in staff might otherwise have led to delays in implementation. However, certain priority activities - such as payment of skilled labor on promised dates - were undertaken by non-implementation staff. Thus, the Ampara office was able to fulfill its obligations to grantees, beneficiaries and vendors in a timely manner. In addition, staff members who are usually "office bound" enjoyed opportunities to see first hand the excellent work of their colleagues and to the pride that has come from our activities.

Heightened Security Concerns in the East, Price Hikes Affect Trinco Implementation

The dissolution of parliament in February, the split in the LTTE and the build up of cadres on the border between Trincomalee and Batticaloa during the past quarter all contributed to heightened security concerns in Trincomalee district. The security situation prevented freedom of travel to most of Trincomalee district and slowed implementation of some grants, mostly due to vendor or grantee security concerns or, in one case, the concern of the Army to release explosives to complete a potable water well excavation project funded by the program.

Because of the political instability that characterized the past quarter, the central government did not transfer funds for regular operations at the Technical College of Trincomalee, which directly affected the sustainability of the program's grant with them. Additionally, due to the dissolution of parliament, the Members of Parliament (MPs) in the area were unable to continue working and, in some cases, were unable to disburse development funds that comprised grantee contributions to certain program-funded initiatives.

Price increases for various commodities also played a role in delaying implementation over the past quarter. The availability of construction materials was problematic, as were the prices for basic construction goods such as cement, steel and sand. The prices for these and other goods increased substantially in the months of February and March. In the case of steel, prices increased by 100%.

The Trinco implementation team did what it could to circumvent these challenges. Recognizing that safety of staff is paramount, the Trinco office purposely postponed travel to specific areas. For their part, grantees also delayed certain activities pending a lifting of tensions. For those grantee activities that proceeded, implementation staff did as much as was practical by telephone. Price increases were unavoidable realities. The Trinco staff responded by recalculating budgets, realizing savings from other line items where possible; where this wasn't possible, revised budgets were submitted to OTI for clearance.

OPERATIONS

The highlights of the first quarter of 2004 are detailed below.

Administrative and Staffing Issues

The VAT issue was resolved at the beginning of this quarter due to the continued efforts of the Mission. DAI received a general letter from the Commissioner General of Inland Revenue stating that DAI was entitled to receive a suspension on all VAT supplies. DAI has since distributed a copy of this letter to all of its vendors and suppliers including the lessor. All have accepted the letter to date.

During the past quarter, generators for the field offices were procured, installed and tested. These have proven essential to the continuity of operations, especially given the frequent power outages that these regions have experienced recently. In addition, the water line for the Trincomalee office was successfully installed during the quarter. The office now enjoys two water sources - well water and city water. Sign boards indicating the location of the Trincomalee office were also completed and installed at key junctions in Trinco town.

Personnel recruitment continued in all three offices during this quarter. The Ampara office finalized its staffing complement with the hiring of Habeeb Mohammed Saleeth for the second Procurement Specialist position. The Trinco office also filled their outstanding Driver position with the approval of Sivapakiyam Satheeswaran at the start of the quarter. During this period though, the project had three resignations. The Colombo office lost a Procurement Specialist (Sudarshan Nagalingam) while the Trinco office lost one Program Development Officer (Muralidaran Thiyagarajah) and a Grants Specialist (Sithravel Sujeevan). Both offices quickly began searches to fill the vacancies and replacements are expected by the second quarter. In addition, performance reviews for all staff in the Trinco office were completed during the past quarter. Performance reviews for the Colombo office staff will take place early in the next quarter. Ampara staff performance reviews will be conducted later in the year.

Visitors – In January, Tjip Walker of OTI Washington visited the Trincomalee office to assist with the design of a more focused strategy for the district. Tjip worked with all staff in the office and visited Muttur to meet with prominent members of the Muslim and Tamil community regarding programming possibilities. In March, David Taylor, Director of OTI, visited both the Colombo and Trinco offices. In both cases, David was accompanied by I Country Representative Justin Sherman. In Colombo, David had an opportunity to meet with staff and contribute his vision of OTI's future. In Trinco, David met with the Government Agent, UN and Directorate Inspector General of Police. David also visited four grantee sites in Kinniya, Kantale and Trinco town. The visit was well covered by the media.

Financial and Contractual Issues

On 1 January, DAI signed and returned Contract Modification #3. DAI had requested, and was granted, a realignment of the budget. As noted last quarter, the realignment focused solely on the operations budget and included changes in staffing patterns (both local and expatriate), elimination of the subcontractor, and increases in miscellaneous and procurement related costs. USAID also allocated an additional obligation of \$1,765,000 to continue the program.

The total budget under this Task Order contract is \$6,452,459. At the end of the 2004 first quarter, the total obligated budget was \$5,213,374. As seen in Appendix A, a total of 61.60% of the obligated budget was spent through March 31, 2004. This represents \$1,510,907 in operational expenditures and \$1,700,380 in grant funds. It is worth noting that vouchered and encumbered expenses equal 88.25% of the obligated budget as demonstrated in the fourth table in Appendix A.